

# BRINGING OUR GIFTS TO THE TABLE: CREATING CONDITIONS FOR FINANCIAL HEALTH IN THE CHURCH

National Leadership Roundtable  
on Church Management Conference  
at The Wharton School

JUNE 29–30, 2006  
PHILADELPHIA, PENNSYLVANIA



---

# THE POWER OF ECONOMIES OF SCALE IN THE CHURCH (MULTI-PARISH/MULTI-DIOCESE)

Panel

---

*Frederick Gluck*  
*James Smith*

---

## Frederick Gluck

Knowing I was going to talk about economies of scale today, I asked myself, “Is this an abstract concept?” And it occurred to me that our entire society is dominated by economies of scale. What do you think automobiles would cost if they were made one at a time? How about Boeing 747s? Being a mom-and-pop operation just isn’t a good idea today.



Jim Smith and Fred Gluck (left to right)

---

... our entire society is dominated by economies of scale.

---

Within the Church, many opportunities exist for dioceses or groups of dioceses to employ economies of scale, in areas that range from purchasing to investments to health care. Let’s consider investments for a moment. A study was done that shows the returns on investments as a function of the size of the portfolio, and it turns out that when you get to about a portfolio worth about \$1 billion, your returns really start increasing. So, those of you who are involved in Church

---

investments should think about your capacity to aggregate some very large investment portfolios. At the same time, you could attract some highly talented professional managers.

---

---

## Economies of scale, I believe, have the potential to change the economics of the Church.

---

Economies of scale, I believe, have the potential to change the economics of the Church. But first, you need an understanding of the potential, and I don't think we have that yet. By "understanding," I mean taking the time to ask, what's practical? For example, what could you expect to save by having a general contract with one or more of the big auto manufacturers where every vehicle purchased by the Church goes through that contract? Rest assured, you would get a very major discount. And that extends beyond automobiles to goods and services of all kinds.

In addition to understanding the potential of economies of scale, you need an effective process, and you need leadership. I don't think you have either one of those now. You've got plenty of leadership, but none specifically in this area. And that's unfortunate because the potential savings is enormous: \$100 billion is spent each year by Church-related organizations, including hospitals and schools.

What can we learn from the experience of Texas in applying economies of scale to the purchase of healthcare insurance? The biggest lessons are that it can be done—and that the payoff can be enormous. But it takes courage and determination, and no one is better qualified to tell that story than Jim Smith, as we're about to hear.

### **James Smith**

Let me start by taking you back to 1989, when a group of us in the Diocese of Fort Worth got together to begin discussing the possibility of having a common health plan for all of the dioceses in the state of Texas.

That's right, 1989. We don't necessarily move fast, but more important is that we weren't afraid to move slow. In 2004, the Catholic schools in the state sent a letter to the bishops of Texas, through their school superintendent, asking if they could get a common health plan for all of the Catholic schools in Texas. The bishops thereupon appointed a committee of three bishops and three finance officers—of which I was one—to revisit the issue and renew discussions.

As background, Texas has a population of about 23 million, including roughly 1.6 million Catholics. We are divided into two archdioceses and 15 dioceses across the state, and have approximately 11,000 employees. Nine of those dioceses have a total of just over 2,800 employees. Taking it down to the grassroots level, the Diocese of Tyler under Bishop Corrada covers 25,000 square miles in east Texas. We have 17,000 registered Catholic families spread across 68 parishes and

missions. Serving our diocese are 242 employees, 91 of whom are priests. We are a very small diocese, even though the geography is very large.

Putting together a healthcare plan that incorporated the appropriate PPO and other types of providers across Tyler's 25,000 square miles was extremely difficult. But putting together one for the entire state of Texas was even more challenging. Because the numbers of employees in 9 of our 15 dioceses were so small, and because we were self-insured, we had to maintain a very low stop-loss threshold. We couldn't even buy stop-loss insurance. Plus, we had virtually no negotiating power.

In the Diocese of Tyler, we were fast reaching the point where we could no longer afford to provide health insurance benefits to our lay employees. And if we took lay employees out of the mix, health insurance costs for ordained priests within the diocese would certainly have reached—pardon the pun—heavenly levels.

So, in 2004, we formed a select committee and sought the buy-in of all 15 bishops in the state of Texas. We got the attention of all of them, but not necessarily the buy-in.

We also realized that our skills and experience were such that we could not manage a project as enormous as this by ourselves. So we looked around and contracted with a professional firm called the Godly Group to serve as our consultant. Along with hiring a consultant comes cost, of course. We were very blessed that the Kennedy Foundation, of which many of you are aware, stepped forward to share the cost of our study and the development of the process.

Crucial to that process was establishing timelines and getting participation from all 15 dioceses. Although we didn't get buy-in from everyone, we did get their participation. That proved important when we put out data requests to each diocese. Here we found some of the biggest stumbling blocks to be the turf issues within individual dioceses. For example, most dioceses have a definition of "employee," and you'd think that would be pretty standard. But it wasn't. They also had different stop-loss levels and different benefits packages. Some dioceses offered very generous benefits; others didn't.

That gives you some idea of the complex issues our committee had to wrestle with. As a result, the Godly Group and I started meeting with every bishop in the state and every chief financial officer to try and understand what the individual issues and problems of each diocese were, and what common ground existed.

The collection of claims data in particular was a challenge. To do our job, we had to have good claims data from all of the dioceses. You'd think just asking for it would be simple. But it was extremely difficult because of the expiration dates of policies. From some dioceses we got just 3 months worth of data, from others 12 months. Further complicating matters was the fact some of the dioceses had recently changed carriers, so we got short data. In cases where we couldn't get 12 months worth of good data, we had to take what we could and actuarially project it out.

---

Within the state of Texas, the total cost of health insurance was running around \$43 million a year for all of the dioceses. We found—and this gets to the turf issues I mentioned before—vastly different styles of managing these health benefits. I'm sure no one in this room would have a \$43 million business that couldn't be effectively managed. But that's exactly what was happening within the Church.

---

So, it didn't take long for us to see that the so-called law of the large numbers was going to work for us. . . .

---

So, it didn't take long for us to see that the so-called law of the large numbers was going to work for us—that by building a single Catholic benefits group we could, as originally predicted, realize a significant financial advantage. Conservatively, we projected the savings to all 15 dioceses—if they decided to participate—and their 11,000 employees to be \$6 million. We also found that by coming together as a group we could purchase higher stop-loss levels, eliminate brokerage fees (which in some dioceses were very high) by being able to negotiate directly with providers, and consolidate administrative services for all of the plans.

But our work was hardly over. We now had to take the vast array of benefits plans throughout all the dioceses and come up with what I began to refer to as a “benefit mutual position.” This platform blended the best of this diocese and the best of that into a common benefits package upon which all of the participants could agree. We then developed a request for funding and sent it out to six insurance companies, four of whom submitted bids.

In the end, we selected Mutual of Omaha as the vendor for our new Catholic Employee Benefits Group. We initially have 1,100 lives, including dependents, covered, and a number of dioceses are expressing an interest in joining the program once their current policies expire.

Just as with any new venture or operation, we're going to experience some growing pains. Because we know problems and issues are going to arise, we've set up a framework to deal with them effectively. We've also asked each participant for a three-year commitment; four dioceses to date have agreed. Based on my experience, I believe those commitments will be renewed at the end of the three years. And within five years, I think at least 11 of the 15 dioceses in the state of Texas will opt to become members of the Catholic Employee Benefits Group.